AR61

Winspear Business Reference Room
University of Alberta
1-18 Business Building
Edmonton, Alberta T6G 2R6

It's all coming together

Rockport
ENERGY CORPORATION

1996
ANNUAL REPORT

CORPORATE PROFILE

Rockport Energy Corporation is a publicly traded junior Canadian energy company, based in Calgary, Alberta. The business of Rockport is exploration, development and production of oil and natural gas in selected regions of the Western Canadian sedimentary basin. The Corporation also acquires producing properties which offers immediate cash flow and potential for future development.

Rockport's corporate strategy is to emphasize growth and enhancement of shareholder value. Our goals and production targets will be achieved by focusing on the development of the Corporation's core areas. Significant working interests are maintained in its projects in order to provide for maximum return on investment with minimum risk.

The Corporation has expanded from producing 76 BOPD at year end 1994 to nearly 300 BOPD in March, 1997. Production volumes will continue to increase during the year and targets exceeding 650 BOPD have been projected.

Common shares are listed on the Alberta Stock Exchange and trade under the symbol "RPT".

Notice of Annual General and Special Meeting

The Annual General and Special Meeting will be held at 3:00 P.M. on Thursday, May 8, 1997 in the Barclay Room of the Westin Hotel located at 320 Fourth Avenue S.W., Calgary, Alberta. Shareholders are cordially invited to attend and if unable to do so, are requested to complete and return the form of Proxy at their earliest convenience. Copies of the Information Circular and Proxy, or additional copies of this Annual Report may be obtained at Suite 760, 505 - 3rd Street S.W., Calgary, Alberta T2P 3E6 or Telephone (403)531-0873, Facsimile (403)531-0872.

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REPORT TO OUR SHAREHOLDERS

In 1996, the Corporation continued to demonstrate growth, attributable primarily to drilling activities and increasing its interests in core properties. Over the last 12 months, the Corporation has assembled an inventory of five low-risk oil projects with working interests ranging from 20% to 50%. With these larger working interests, Rockport is positioned to realize a greater share of production and related revenues from its imminent drilling programs.

Drilling Results

The Corporation participated in drilling seven wells over the year, resulting in six oil wells and one abandoned well. As a result, the Corporation's reserves have increased by 70% over 1995, to a value of $5.9 Million, discounted at 15%. The year's growth was essentially due to successful infill drilling at Pembina, Alberta and Eyehill, Saskatchewan. Financing of these operational activities was satisfied using cash flow and a limited issuance of flow-through shares ($600,000) in July 1996.

Operatorship

As it is our objective to be a low cost producer, Rockport has assumed operatorship of two of our five properties. Operatorship provides the Company an opportunity to control capital, operating and administrative costs combined with the ability to determine the timing of drilling operations.

Reasons For Our Success

Many factors come into play when assessing a junior oil company's overall success. The first and foremost reason are the people. The Rockport team is a group of professionals with extensive oil and gas expertise. All employees and consultants are encouraged to apply value-added business fundamentals in our strategic planning process. The Corporation is technically focused in core areas and our growth strategy is defined as "growth through development drilling."

Crude oil generates instant cash flow and accordingly, the Corporation has focused on this product. For this reason, all of the projects that Rockport currently maintains in inventory are located in oil prone areas. Once an oil well is drilled and completed, it can be equipped and placed on production without delay. Therefore, cash flow is realized immediately and available for re-investment.

Balancing The Portfolio

As the company expands, we intend to create a balanced commodity inventory between oil and natural gas. At this time however, Rockport does not have natural gas facility ownership which is required to reduce operating costs and field efficiencies in natural gas projects. At such time as a natural gas opportunity is identified, both transportation and markets must be readily available, along with facility ownership.

Outlook For 1997

The business plan of Rockport remains focused in increasing shareholders' equity. This plan will be achieved in 1997 through the development and exploitation of the Corporation's high quality inventory of drilling prospects. During the first six months of 1997, Rockport intends to drill nearly twenty wells with an initial budget of approximately $2 Million. This will become a new corporate record for the number of wells to be drilled and accounts for drilling activities during the first half of the year.

Management is cognizant of the importance of the requirement to continually generate new drilling opportunities. Plans are underway, utilizing 3D seismic surveys, to identify contingent drilling locations for the second half of 1997 on internally generated prospects, both on our existing properties as well as new projects. The ability to generate projects of this nature will provide the foundation for dramatic growth in 1997 and beyond.

Acknowledgments

Rockport has attracted an outstanding team of individuals, motivated to achieve aggressive goals and targets. On behalf of the Board of Directors, we thank all of our staff for their commitment to the building and continued growth of a dynamic Corporation.

Finally, I would like to extend a special thanks to the Board of Directors for its guidance and efforts during 1996. As well, we acknowledge and thank Rockport's shareholders for their faith and continued support in the Corporation in the years ahead.

Bruce G. Hall
President & Chief Executive Officer
March 17, 1997

LAND HOLDINGS

Our strong technical team has been responsible for identifying low-risk strategic lands with significant drilling potential. Rockport has continued to secure land holdings in the form of negotiated seismic option agreements which allows the Company the right to drill and earn working interests in petroleum leases, after it has evaluated the prospect with current seismic technologies. Significant land positions are, therefore, available to Rockport for drilling, without having to incur the up front expenditures of purchasing expensive leases at Crown Sales at a time when the industry is paying premiums for acreage.

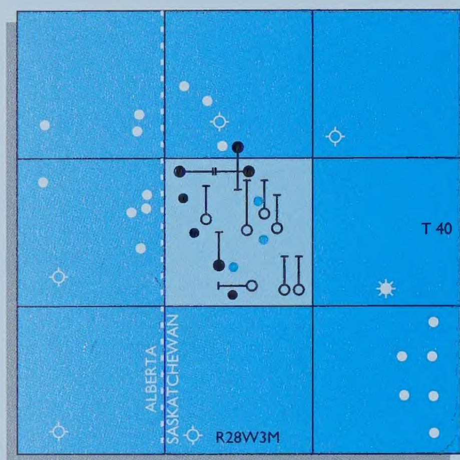
As a result of a major asset exchange agreement with a private oil and gas company which closed in November 1996, Rockport experienced a significant decrease in both gross and net acres. The Corporation realized a marked increase in oil reserves and increased working interests in the Eyehill oil pool, in Saskatchewan and in the Boundary Lake oil pool in Alberta and British Columbia.

Western Canada Core Production Areas

Currently, the Corporation's land holdings comprise 19,360 gross acres (4,700 net) at year end 1996 with an average working interest of approximately 30% in its major projects.

Our ongoing land acquisition strategy is focused on securing high potential lands, based on managements' extensive experience to identify low-risk drilling opportunities in Rockport's focus areas.

Eyehill, Saskatchewan



- Horizontal Oil Well
- Proposed Horizontal Location
- Oil Well
- Sparky Oil Well

Rockport first acquired a working interest in the Eyehill project in mid - 1995. At that time, 23° API crude oil was being produced from the shallow Sparky formation from four vertical oil wells. During 1996, Rockport purchased an additional interest in the property and increased its working interest to 19.4% from 14% in both the existing Sparky production and the deeper Dina petroleum rights. The Corporation identified significant undeveloped deeper oil potential from a second formation, known as the Dina and initiated horizontal drilling for this target in late December.

The first well was drilled, completed and placed on production at a rate of 190 BOPD (37 BOPD net). Immediately following the results of the first well, a second well was spudded and subsequent to year-end, completed and placed on production at the same rate. Over the first two months of 1997, the Corporation participated in four more wells, two additional horizontal and two vertical wells. Crude oil production from these wells have resulted in doubling the Corporation's daily production volumes to approximately 280 BOPD. The final horizontal well in this six-well drilling program has been drilled and will be placed on production immediately.

With early success on this project, plans are underway to commence the second phase of development drilling and enhancement of this property over the next few months.

Weyburn, Saskatchewan

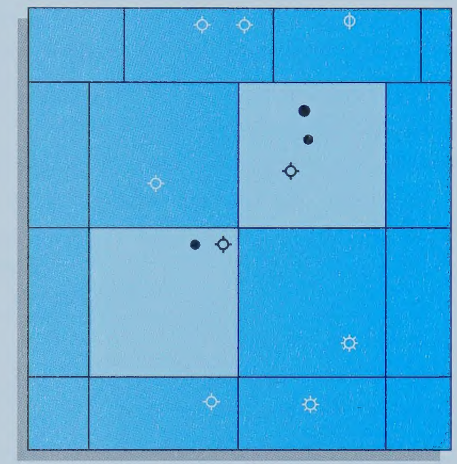
- Horizontal Oil Well
- Proposed Horizontal Location
- Oil Well

Rockport has acquired various working interests in over 960 acres of prospective acreage on this prospect, ranging from 10% to 25%. The Corporation's lands offset the Weyburn Unit, which to date has produced in excess of 320 MMbbls of 26° API crude oil since the early 1950's, from an estimated oil in place reserve of over 1,120 MMbbls.

Subsequent to the end of 1996, Rockport participated in drilling a horizontal well at a location of 2-21 to 1-21. The path of this horizontal was selected as a result of detailed interpretation of existing 3D seismic surveys. Rockport has a 25% working interest in the well before payout (21% after payout) which is expected to commence production in April 1997. The Corporation maintains ownership in a central battery located at 2-25-5-14W2M and this new well, combined with all of Rockport's oil production from this area is processed through our facility.

To date, the Weyburn area has provided the highest volume oil wells than any of our other projects and further evaluation and drilling will continue on this project in 1997 and 1998.

Enchant, Alberta



● Producing Oil Well

During the year, Rockport undertook a re-completion of a successful Glauconite oil well on this property comprising 1,280 acres. The Corporation holds an average 45% working interest in three producing Glauconite oil wells and in order to improve operating costs, the wells were converted from propane to natural gas fuel. Routine pump changes were also undertaken to improve lifting efficiencies.

In the area, similar oil pools have demonstrated excellent production rates through the application of horizontal drilling and Rockport is currently evaluating the extent to which such drilling techniques can be applied to this project. Additional 3D seismic data has been conducted on the property during the year to further evaluate its multi-zone potential, primarily for oil but also for natural gas. Rockport is planning to drill two horizontal wells on this project in the near future.

Reserves

The Company's operational activities resulted in a 70% increase in petroleum and natural gas reserves over 1995. Summarized below in the following tables are estimates of these reserves, future production and net income as of January 1, 1997 as evaluated by an independent engineering firm, Ryder Scott Company:

Proved

	Developed			
	Producing	**Non-Producing**	**Undeveloped**	**Total Proved**
Net Remaining Reserves				
Oil - Barrels	267,849	-	230,832	498,681
Plant Products - Barrels	4	9,191	-	9,195
Gas - MMCF	309	1,456	-	1,765
Income Data				
Future Gross Revenue	11,067,929	7,345,886	6,969,825	25,383,640
Deductions	4,182,138	3,627,520	4,939,317	12,748,975
Future Net Income (FNI)	6,885,791	3,718,366	2,030,508	12,634,665
Discounted FNI @ 15%	2,810,813	720,098	1,084,653	4,615,564

Probable

	Developed			
	Producing	**Non-Producing**	**Undeveloped**	**Total Probable**
Net Remaining Reserves				
Oil - Barrels	14,507	10,808	168,484	193,799
Plant Products - Barrels	-	2,618	-	2,618
Gas - MMCF	262	731	-	993
Income Data				
Future Gross Revenue	2,532,353	6,949,628	5,063,078	14,545,059
Deductions	410,228	2,785,214	3,498,044	6,693,486
Future Net Income (FNI)	2,122,125	4,164,414	1,565,034	7,851,573
Discounted FNI @ 15%	151,511	247,555	858,838	1,257,904

MANAGEMENT'S DISCUSSION AND ANALYSIS

Rockport's successful development drilling programs are based on sound oil and gas business fundamentals designed toward growth. In 1996, development drilling at Pembina, Alberta, with small working interest properties, did not significantly impact volumes but assisted in maintaining revenues comparable to 1995.

In 1996, Rockport derived 82% of its revenue from crude oil production realizing Cdn.$25/Bbl., up 20% from Cdn.$20.8/Bbl over 1995. Subsequent to year end, development drilling at Eyehill with larger working interests has impacted the Corporation materially, both in terms of daily volumes and revenues.

Capital Expenditures

By far, the most material event for Rockport in 1996 was the Asset Exchange Agreement with a private oil and gas company resulting in an increase in Rockport's oil reserves through increasing working interests in the Eyehill and Boundary Lake oil pools. Rockport swapped interests in seven gas properties which provided no further development potential.

Following this transaction, oil production remained comparable throughout the first nine months and gas volumes dropped by approximately 40%. However, oil reserves increased significantly and is reflective of the Corporation's philosophy to divest itself of relatively mature properties in favour of pursuing greater returns in properties that Rockport has identified greater future drilling potential.

Bank Credit Facility

During the year, Rockport utilized its $1 Million credit line in the normal course of business. The maximum extent of the Corporation's draw down reached $600,000 and in July, 1996, Rockport's operating loan was discharged with proceeds from the share issue.

At December 31, 1996, Rockport's bank line was undrawn and the Corporation has no long term debt.

AUDITORS' REPORT

To the Shareholders of Rockport Energy Corporation

We have audited the balance sheets of Rockport Energy Corporation as at December 31, 1996 and 1995 and the statements of operations and retained earnings (deficit) and changes in financial position for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1996 and 1995, and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Ernst + Young

Chartered Accountants

Calgary, Canada
March 5, 1997

BALANCE
SHEETS

As at December 31

	1996	1995
Assets (Note 4)		
Current Assets		
Cash and cash equivalents	$ 206,000	$ 40,633
Accounts receivable	242,177	377,504
	448,177	418,137
Capital assets (Note 3 and 4)	2,946,022	2,900,152
	$ 3,394,199	$ 3,318,289
Liabilities and Shareholders' Equity		
Current Liabilities		
Bank loan (Note 4)	$ -	$ 600,000
Accounts payable and accrued liabilities	276,059	334,392
	276,059	934,392
Future site restoration costs	108,300	87,000
Shareholders' Equity		
Share capital (Note 5)	2,884,955	3,508,275
Retained earnings(deficit)	124,885	(1,211,378)
	3,009,840	2,296,897
	$ 3,394,199	$ 3,318,289

see accompanying notes

On behalf of the Board:

B G Hall

Bruce G. Hall, Director

Larry V. Zadan, Director

STATEMENTS OF OPERATIONS AND
RETAINED EARNINGS (DEFICIT)

For the years ended December 31

	1996	1995
Revenue		
Petroleum and natural gas sales,		
net of royalties and Alberta Royalty Tax Credit	**$ 1,063,832**	$ 1,133,412
Royalty income	**77,756**	44,641
Interest and other	**45,798**	26,354
	1,187,386	1,204,407
Expenses		
Production	**488,896**	450,011
General and administrative	**195,589**	134,033
Interest	**26,014**	24,154
Depletion, depreciation and site restoration	**352,002**	685,310
	1,062,501	1,293,508
Net income(loss) for the year	**124,885**	(89,101)
Deficit, beginning of year	**(1,211,378)**	(1,122,277)
Elimination of deficit through reduction		
of share capital (note 5)	**1,211,378**	-
Retained earnings(deficit), end of year	**$ 124,885**	$ (1,211,378)

see accompanying notes

Net income (loss) per share (Note 7)	**$ 0.01**	$ (0.01)

STATEMENTS OF CHANGES
IN FINANCIAL POSITION

For the years ended December 31

	1996	1995
Operating Activities		
Net income(loss) for the year	$ 124,885	$ (89,101)
Non-cash items:		
Depletion, depreciation and site restoration	352,002	685,310
Funds from operations	476,887	596,209
Net change in non-cash working capital	76,994	(121,715)
	553,881	474,494
Financing Activities		
Proceeds(repayment)of bank loan	(600,000)	600,000
Issue of share capital, net of share issue costs	605,832	-
	5,832	600,000
Investing Activities		
Acquisition of capital assets	(640,968)	(1,280,044)
Proceeds on disposal of capital assets	246,622	29,439
Net change in non-cash working capital	-	(159,665)
	(394,346)	(1,410,270)
Increase(decrease) in cash and cash equivalents	165,367	(335,776)
Cash and cash equvalents, beginning of year	40,633	376,409
Cash and cash equivalents, end of year	$ 206,000	$ 40,633

see accompanying notes

Funds from operations per share (Note 7)	$ .03	$ .04

1. DESCRIPTION OF BUSINESS

Rockport Energy Corporation, a public company, incorporated under the Canada Business Corporations Act, is engaged in the acquisition, exploration and development of oil and gas properties within Canada.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) CAPITAL ASSETS

The Corporation follows the full cost method of accounting for its petroleum and natural gas properties. All costs related to the exploration for and development of petroleum and natural gas reserves, whether productive or non-productive, are capitalized in one cost centre and charged against earnings as set out below. Such costs include land acquisition, drilling, geological and geophysical costs, lease rentals on undeveloped properties, drilling costs of both productive and non-productive wells and capitalized general and administrative costs.

Gains or losses are not recognized upon disposition of petroleum and natural gas properties unless crediting the proceeds against accumulated costs would result in a change in the rate of depletion of 20% or more.

The carrying value of the Corporation's petroleum and natural gas properties, net of deferred income taxes and site restoration provision, is limited to an ultimate recoverable amount. This amount is the aggregate of estimated future net revenues from proved reserves and the costs of unproved properties, net of impairment allowances, less future estimated production, general and administrative costs, financing costs, future site restoration costs and income taxes. Future net revenues are estimated using year-end prices and costs without escalation or discounting and the income tax and Alberta royalty tax credit legislation in effect at the year end.

(b) DEPLETION AND DEPRECIATION

The provision for depletion and depreciation of petroleum and natural gas properties and production equipment is computed using the unit of production method based on estimated proven reserves of oil and gas as determined by independent engineers, converted to a common unit of measure on the basis of their approximate relative energy content. Costs of acquiring and evaluating

unproved properties will be excluded from depletion calculations until it is determined whether or not proved reserves are attributable to the properties or impairment occurs.

Furniture and fixtures are depreciated on a straight-line basis over five years.

(c) FUTURE SITE RESTORATION COSTS

The estimated cost of site restoration is based on the current cost and the anticipated method and extent of site restoration in accordance with existing legislation and industry practice. Estimated future site restoration costs are accrued on a unit of production basis based on proven reserves. The provision is recorded on the statement of operations together with depletion and depreciation. When expenditures are made to restore a property, the accumulated provision is charged with these expenditures.

(d) FLOW THROUGH SHARES

The Corporation financed a portion of its exploration and development activities through the issue of flow through shares. Under the terms of the flow through share issue, the tax attributes of the related expenditures are renounced to subscribers. To recognize the foregone tax benefits to the Corporation, the carrying value of the properties acquired and the shares issued are recorded net of the tax benefits renounced to subscribers as the expenditures are incurred.

(e) JOINT OPERATIONS

All of the exploration and production activities of the Corporation are conducted jointly with others and accordingly these financial statements reflect only the Corporation's proportionate interest in such activities.

(f) MEASUREMENT UNCERTAINTY

The amounts recorded for depletion and depreciation of petroleum and natural gas properties and for site restoration and reclamation are based on estimates of reserves and future costs. By their nature, these estimates and those related to the future cash flows used to assess impairment, are subject to measurement uncertainty and the impact on the financial statements of future periods could be material.

3. CAPITAL ASSETS

	December 31, 1996		
	Cost	Accumulated Depletion andDepreciation	Book Value
Petroleum and natural gas properties	4,475,019	1,542,000	2,933,019
Furniture and fixtures	24,381	11,378	13,003
	$ 4,499,400	$ 1,553,378	$ 2,946,022

	December 31, 1995		
	Cost	Accumulated Depletion andDepreciation	Net Book Value
Petroleum and natural gas properties	4,101,780	1,216,000	2,885,780
Furniture and fixtures	21,048	6,676	14,372
	$ 4,122,828	$ 1,222,676	$ 2,900,152

During the year, the Corporation capitalized $86,000 (1995 - $119,638) of general and administrative costs.

As at December 31, 1996, petroleum and natural gas properties include $250,000 (1995 - $93,000) relating to unproved properties which have been excluded from the depletion calculation.

4. BANK LOAN

The Corporation has a demand revolving operating credit facility with a Canadian chartered bank with a maximum limit of $1,000,000. Interest is paid monthly at bank prime plus 1 1/4% per annum.

The Corporation has pledged a $1,000,000 first fixed and floating charge over its petroleum and natural gas properties and a floating charge over all other assets as collateral for the credit facility.

At December 31, 1996 no amount was outstanding under this facility.

5. SHARE CAPITAL

Authorized :
Unlimited Class A Voting Common Shares
Unlimited Class A Preferred Shares
Issued:

	Common Shares	
	Shares	$
Issued and outstanding as at December 31, 1995 and 1994	14,957,235	3,508,275
Flow through shares issued by private placement	3,750,000	600,000
Reduction of share capital to eliminate deficit	-	(1,211,378)
Exercise of stock options	41,667	5,832
Tax benefits renounced	-	(17,774)
Issued and outstanding, as at December 31, 1996	18,748,902	2,884,955

In accordance with the provisions of the Canada Business Corporations Act, the shareholders at the annual general meeting held on May 16, 1996 approved a reduction in the stated capital of the Corporation's common shares in the amount of $1,211,378 to eliminate the deficit as recorded in the Corporation's books at December 31, 1995.

During 1996 the Corporation renounced tax expenditures of $39,498 to the flow through shareholders. The tax effect of $17,774 relating to the renouncement has been recognized as a reduction of the carrying value of both share capital and capital assets. The corporation is obligated to renounce $560,502 of expenditures during fiscal 1997.

STOCK OPTION PLAN

The Board of Directors has approved the granting of options to certain directors, officers and consultants to purchase the Corporation's common shares, which were outstanding as follows at December 31, 1996:

Number of Shares Under Option	Exercise Price Per Share	Expiry Date
280,000	$ 0.14	August 13, 1997
30,000	$ 0.16	July 1, 1997
200,000	$ 0.14	April 6, 1998
485,000	$ 0.13	March 14, 2001
995,000		

WARRANTS

The Corporation has 3,750,000 warrants outstanding entitling the holder to acquire one common share per warrant at an exercise price of $0.18 to December 28, 1997 at a price of $0.22 from that date until June 28, 1998 at which they expire.

6. INCOME TAXES

The provision for income taxes differs from the amount that would have been expected by applying corporate income tax rates to income (loss) before income taxes. The principal reasons for this difference are as follows:

	1996	1995
Income/(loss) before income taxes	**$ 124,885**	$ (89,101)
Statutory income tax rate	**45.00%**	44.00%
Anticipated tax expense (recovery)	**56,198**	(40,095)
Increase (decrease) in income tax resulting from:		
Non-deductible royalties and taxes, net of ARTC	**64,713**	75,999
Resource allowance	**(37,845)**	(57,714)
Non-tax based depletion	**20,532**	14,706
Amortization of share issue costs	**(17,379)**	(17,165)
Deferred tax debit not recognized	**-**	24,269
Tax benefit previously not recognized	**(86,219)**	-
Income tax provision	**-**	-

As at December 31, 1996, the Corporation had exploration and development costs and undepreciated capital costs available for deduction against future taxable income in the following approximate amounts:

Canadian oil and gas property expenses	$1,773,000
Canadian development expenses	$233,000
Canadian exploration expenses	$572,000
Undepreciated capital cost	$561,000

7. INCOME AND FUNDS FROM OPERATIONS PER COMMON SHARE

The per share amounts are based on the weighted average number of shares outstanding during the year, which was 16,839,180 (1995 - 14,957,235). Funds from operations per share is based on funds from operations before changes in non-cash working capital balances related to operating activities.

Fully diluted net income (loss) and funds from operations per share are not dilutive.

CORPORATE INFORMATION

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President and
Chief Executive Officer

Barry Mazurkewich
Vice President, Exploration

Maribel Benson
Corporate Secretary

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Bruce G. Hall
President
Rockport Energy Corporation

Larry V. Zadan
President
Horn Petroleum Inc.

A. Stephen Brink
Natural Gas Risk Management and Trading
PanCanadian Petroleum Limited

Transfer Agent and Registrar

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Barristers and Solicitors
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NOT TO BE TAKEN FROM THIS ROOM

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